

Message Text

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EB-03 INR-05 CIAE-00 OMB-01
TRSE-00 SP-02 PRS-01 NSC-05 NSCE-00 PA-01 SSO-00
/040 W

-----301000Z 128175 /14

P R 300915Z MAY 77
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC PRIORITY 6157
INFO AMEMBASSY DOHA 725
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY TEHRAN

C O N F I D E N T I A L ABU DHABI 1613

LIMDIS

E.O. 11652: XGDS-1
TAGS :: EFIN, TC
SUBJECT : UAE SEEKS IMF ADVICE ON BANKING SECTOR FUTURE

REF: ABU DHABI 1585

1. IMF TEAM HEADED BY JOHN NGUNTHER HAS BEEN IN UAE FOR PAST SEVERAL DAYS AT INVITATION OF UAE MINISTER FINANCE SHAIKH HAMDAN TO CONSULT ON MEASURES TO BRING COMMERCIAL BANKING SITUATION UNDER BETTER CONTROL. INVITATION FOR GUNTHER TO COME WAS MADE TWO WEEKS AGO AS DETERIORATING POSITION OF SEVERAL UAE BANKS BECAME READILY APPARENT.

2. SOURCES CLOSE TO IMF GROUP TOLD AMBASSADOR THAT GUNTHER HAD ALL DAY MEETING MAY 29 CHAIRED BY FONMIN SUWAIDI WHICH INCLUDED MINFIN SHAIKH HAMDAN, MINPET UTAYBA, DIRECTOR ABU DHABI DEPT FINANCE HABROUSH, DIRECTOR
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PRIVY PURSE DARWISH, AND UAE CURRENCY BOARD DIRECTOR RON SCOTT TO DISCUSS RECOMMENDATIONS GUNTHER HAS MADE. MAHDI TAJIR WAS SUPPOSED TO PARTICIPATE IN MEETING BUT DID NOT SHOW. GUNTHER'S RECOMMENDATIONS ARE TO CONVERT UAE CURRENCY BOARD INTO A REAL UAE CENTRAL BANK WITH POWERS THAT GO WITH IT, INCLUDING ISSUANCE OF INTEREST BEARING NOTES (WHICH WOULD BE HELD BY COMMERCIAL BANKS AS PART

OF THEIR RESERVES) AND RIGHT TO INTERVENE DIRECTLY IN THE OPERATIONS OF WEAK BANKS. THE REPORT RECOMMENDS THAT THE UAE GOVERNMENT (READ ABU DHABI) PROVIDE FUNDS TO SOUND COMMERCIAL BANKS NOW IN TEMPORARY DIFFICULTIES AND TO MAKE ARRANGEMENTS TO PROTECT DEPOSITORS. REPORT HAS BEEN TRANSLATED INTO ARABIC AND SUMMARIZED FOR PRESENTATION TO SHAIKH ZAYID MAY 30. IF IT IS APPROVED, GUNTHER MAY SEE SHAIKH ZAYID BEFORE HE LEAVES ABU DHABI ON JUNE 1. COMMITTEE HEADED BY SUWAIDI NOW ACCEPTS IDEA THAT GOVT SHOULD INTERVENE TO PROTECT SOUND COMMERCIAL BANKS AND SHOULD FIND SOME WAY PROTECT DEPOSITORS.

3. SOURCES CLOSE TO IMF DELEGATION AGREE THAT ACTING ON IMF RECOMMENDATIONS WILL BE A REAL TEST OF HOW EFFECTIVE UAE LEADERSHIP WANTS FEDERAL SYSTEM TO BE IN GOVERNING COUNTRY. IT FELT THAT IT WILL BE NECESSARY TO READ THE RIOT ACT TO SHAIKH RASHID OF DUBAI, WHO CAN BE EXPECTED TO BALK IF HE FEELS THE CREATION OF CENTRAL BANK WILL HURT COMMERCIAL PROFITABILITY OF BANKS OPERATING IN DUBAI AND FURTHER HEM IN HIS FREEDOM OF ACTION. ABSENCE OF MAHDI TAJIR DISTURBING SINCE IT BELIEVED TAJIR IS ONLY ONE WHO CAN CONVINCE RAHIS TO GO ALONG WITH IMF RECOMMENDATIONS. HOWEVER, IT HAS BEEN CONFIRMED THAT DUBAI HAS AGAIN RESUMED WITHIN PAST FEW DAYS BUYING DIRHAMS FROM CURRENCY BOARD WITH SOME OF ITS FOREIGN EXCHANGE EARNINGS, A PRACTICE IT WAS FINALLY CONVINCED TO FOLLOW EARLIER THIS YEAR BUT WHICH WAS HALTED IN MARCH.

4. IMF DELEGATION BELIEVES THAT BEST WAY TO RESTORE GENERAL CONFIDENCE TO UAE BANKING SECTOR WOULD BE FOR SHAIKH ZAYID

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TO COME OUT IN NEXT FEW DAYS WITH A STRONG STATEMENT SPELLING OUT FUTURE SHAPE OF BANKING SECTOR AND WHAT STEPS UAE INTENDS TO TAKE TO EXPAND AUTHORITY OF CURRENCY BOARD. IF BOARD (OR FUTURE UAE CENTRAL BANK) GIVEN RIGHT TO INTERVENE DIRECTLY IN OPERATIONS OF WEAK COMMERCIAL BANKS, IT IS EXPECTED THAT NUMBER OF BANK MERGERS WILL SOON TAKE PLACE.

DICKMAN

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSULTANTS, ORGANIZATION & MANAGEMENT, BANKS
Control Number: n/a
Copy: SINGLE
Sent Date: 30-May-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ABUDH01613
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Expiration:
Film Number: D770192-0831
Format: TEL
From: ABU DHABI
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977055/aaaaadvy.tel
Line Count: 104
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 798a3d92-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 77 ABU DHABI 1585
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2491478
Secure: OPEN
Status: NATIVE
Subject: UAE SEEKS IMF ADVICE ON BANKING SECTOR FUTURE
TAGS: EFIN, OTRA, US, TC, IMF, (GUNTHER, JOHN N)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/798a3d92-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009